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FM AMEMBASSY BISHKEK

TO RUEHC/SECSTATE WASHDC 1549

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUEHBJ/AMEMBASSY BEIJING 2765

RUEHOT/AMEMBASSY OTTAWA 0143

RUCPDOC/DEPT OF COMMERCE WASHDC

RHEFDIA/DIA WASHDC

RUEKJCS/OSD WASHDC

RUEAIIA/CIA WASHDC

RHEHNSC/NSC WASHDC

RUEKJCS/SECDEF WASHDC

RUEKJCS/Joint STAFF WASHDC

RUEHGV/USMISSION GENEVA 1128

RUEHVEN/USMISSION USOSCE 3156

RUCNDT/USMISSION USUN NEW YORK 2542

RUEHNO/USMISSION USNATO BRUSSELS BE

RUEHBS/USEU BRUSSELS

RUEHLMC/MILLENNIUM CHALLENGE CORP

RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 001190

SIPDIS

DEPT FOR SCA/CEN (GORKOWSKI)

E.O. 12958: DECL: 11/26/2018

TAGS: EMIN ECON PREL EINV KG

SUBJECT: KYRGYZ MAY BE CLOSE TO AGREEMENT WITH CANADIAN-RUN GOLD MINE

REF: A. BISHKEK 588

¶B. BISHKEK 668

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Classified By: Deputy Chief of Mission Lee Litzenberger, Reason 1.4 (b) and (d).

¶11. (C) Summary: A senior Kumtor Operating Company (KOC) official advised Embassy November 20 that agreement is near over a revised mining concession for the Kumtor gold mine. KOC, which contributes nearly 10% of central government tax revenue, has not yet determined whether to proceed with arbitration over a \$2.4 million land tax assessment. Despite uninterrupted power supplies, mine operations have been disrupted by power spikes that have sidelined the main milling operations. Even though KOC increased gold production from 9.36 tons in 2007 to 12.5 tons for the first ten months of 2008, the KOC official dismissed claims of large gold production increases at other Kyrgyz mines in the near future. A positive resolution of the Kumtor dispute would boost a long-tarnished Kyrgyz investment climate. End summary.

Moving from the Status Quo

¶12. (C) While decrying Kyrgyz quibbling over "minor" issues, Kumtor Operating Company (KOC) Vice President Phil Yee told Qboffs November 20 that agreement with Kyrgyz authorities over a revised mining concession is "near." (Note: The Kumtor operation, which provides more than 10% of the central government's tax revenues, has been plagued by protracted negotiations over a revised agreement -- see reftels. The new agreement would grant the Kyrgyz a greater ownership stake in KOC's parent company in exchange for a simplified taxation regime and an expanded concession. End note.) Yee added that each side had reduced their negotiating teams to two people in order to limit personal agendas. (Note: This comment appears to be a reference to outspoken KOC adversary

Kubanychbek Isabekov, who is Deputy Speaker of the Kyrgyz parliament. End note.)

13. (C) Despite Yee's optimism, the Bishkek Interdistrict Court on November 17 validated a \$2.4 million land tax assessment against KOC, which KOC had previously planned to dispute via arbitration. Yee confirmed that two KOC staff members had already been summoned to discuss the payment, but did not reply when asked if KOC would reinstate arbitration proceedings. (Comment: KOC may not want to upset conclusion of an agreement by restarting arbitration. End comment.) However, parliament, which is dominated by the pro-presidential Ak Jol party, would need to approve the agreement. If the agreement is endorsed by senior Kyrgyz officials, Deputy Speaker Isabekov may tone down his objections.

The Power Business

14. (C) Yee confirmed that the premium KOC pays for electricity has ensured steady supplies to the mine site, but added that surges in the power lines, caused by disruptions elsewhere, have sidelined the mine's mill for hours at a time. Recognizing the economic impact of the mine, the majority state-owned Kyrgyz power transmission company has dispatched engineers to the Kumtor mine to devise methods to limit future problems.

Counting Nuggets

15. (C) Yee doubted reports attributed to Kyrgyz State

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Geology Agency chief Kapar Kurmanaliyev that large increases in gold production from other Kyrgyz mines in coming years would be realized. Kurmanaliyev reportedly conceded that Kumtor is the only "productive" gold mine in the Kyrgyz Republic. According to available data, KOC produced 9.36 tons Qgold in 2007 and has increased production to 12.5 tons for the ten months through October 2008.

Comment

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16. Q) Realizing a long-term agreement on the Kumtor operation would be a boost to the Kyrgyz Republic's tarnished investment climate. This high-profile dispute has troubled potential investors, especially in the extractive industries sector, and has limited Kyrgyz economic growth. Once the dispute is resolved, the government should be able to turn the resources dedicated to negotiating this agreement to making necessary improvements in business and investment conditions.

GFOELLER